KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Action/ Discussion Item:

FY 2006 Kentucky Education Technology System (KETS) funds expenditure plan (Detailed budget attachment under separate cover)

Applicable Statute or Regulation:

KRS 156.670
KRS 157.655
KRS 157.660
KRS 157.665

Action Question:

Should the Kentucky Board of Education approve the FY 2006 KETS funds identified in the FY 2006 budget for KETS shared services and KETS offers of assistance?

History/Background:

Existing Policy. The Education Technology Trust Fund is established in the Finance and Administration Cabinet by KRS 157.655(1) to provide education technology for the public school system. Funds are appropriated to the Trust Fund in each biennial budget.

All expenditures from the KETS Trust Fund require the initial approval of the Kentucky Board of Education (KRS 157.655(3)); this approval is accomplished through Board approval of the KETS budget plan. Funds approved by the KBE for a project or service in a previous fiscal year are not required to be approved again. Monies are drawn from the Trust Fund on a fiscal year basis. The KETS budget establishes expenditure levels for new funds available for the offers of assistance program as well as all Kentucky Education Technology System projects or services not previously approved by KBE and administered directly from the state level.

At its June 2000 meeting, the Board approved a new Master Plan for Education Technology for the years 2001 - 2006. The new Master Plan redirected the priorities of the KETS budget to address unmet need in the context of recurring costs needed to support implementation, continuous improvements in technology, and the professional capacity of teachers. The Master Plan budget displays the state funded portion of these costs within categories of State Shared Services. State Shared Services are those aspects of the KETS system that are provided as direct services to districts and schools at no local cost. The KETS Budget Plan for FY 2006, therefore, is directly aligned to the categories of State Shared Services as approved by the Board.

A detailed budget attachment will be sent to KBE members under separate cover prior to this discussion at the August meeting. The Department is seeking Board approval for the FY 2006 KETS Budget. During the August meeting, staff will discuss the details on how those FY 2006 KETS funds will be distributed to the KETS shared services and KETS offers of assistance during FY 2006. Staff will also discuss other funding sources beyond FY 2006 KETS funds that can be used to go toward the $122,000,000 in the KETS annual unmet need that the Board approved in June 2005.

Policy Issues:

KETS offers of assistance. A concern expressed by school districts is the fact that the offers of assistance amounts have continued to decline over the last several years. Five items have impacted the KETS offers of assistance over the past six years. The **first** is the large surplus funding of 1999 and 2000. While we received close to 110M in surplus funds during those years, unfortunately the KETS baseline amount was significantly reduced at that same time and has never been firmly reestablished at the pre-1999 level. The large surplus funds of 1999 and 2000 led districts to place larger than normal amounts in the KETS escrow account (districts by law can escrow funds for up to three years). Up until 2003, districts were able to gradually transfer large amounts of funds they had in the KETS escrow account to their local bank accounts. This reduced districts feeling the immediate impact of the KETS baseline being lowered. Also, the interest gained from the KETS escrow account went toward KETS offers of assistance to districts. The interest gained off of that KETS escrow account has been reduced significantly over each of the past six years because: (a) the amount in the KETS escrow account has decreased significantly due to the surplus funding being matched over time by districts and (b) the KETS baseline has been so low, very few dollars had to be escrowed by districts.

The **second** factor affecting the offers of assistance is the huge amount of federal e-rate rebate funds the state received in 1999 and 2000 due to the surplus funding and e-rate program. This allowed us to temporarily shield the damage of the reduction of the KETS baseline for a few years. The **third factor** is when there is a drop or raise in the KETS baseline funds, this typically also causes a drop or raise in the KETS offers of assistance for that year. **Fourth**, while adding very few new shared services over that past six years, there is commonly an annual cost of living increase charged by vendors providing existing shared services to school districts. The **fifth** factor relates to when a large percentage of districts request that KDE provide any new shared services, it reduces the amounts available for offers of assistance. For example, mass purchasing certain items that all districts want and use makes great business sense because the district and state overall get significant savings and value (i.e., virus protection purchased at the state level for $500K each year would normally cost districts $3M over each biennium out of their local accounts). Adding that virus protection shared service reduced the offers of assistance by less than $1 per student.

The 1992, 1998 and 2001 KETS Master Plans each recommended at least a $30M per year KETS baseline. The recommendation of the commissioned K-12 Technology

Funding Committee in 2001 was to raise the KETS baseline up to a minimum of at least $35M per year. However, the ideal recommendation of the committee was $50M per year. Unfortunately this has not happened and the combination of the five items mentioned above has greatly strained the amounts available for both KETS offers of assistance and any new shared services that districts want in the future. Taking from shared services to increase offers of assistance is very short sighted and does not solve the problem. In fact this approach would drastically worsen the situation since the leverage of large volume discounts would be lost and therefore districts would either: (1) pay significantly more for the same exact service/products, or (2) be eliminated from affording these same services or products at all. The solution is to both raise the KETS baseline to at least $35M per year while at the same time identifying other federal, state and local sources that can help districts reach the annual unmet need of $122M per year.

Under funding of KETS. Over the past six years only approximately $70M per year has gone toward the KETS unmet need of $122M. The cumulative impact of that under funding is approximately $300M. This under funding explains why 75% of our state's student workstations are 7-13 years old and very few new services for school districts have been offered over the past six years. Nearly all the $70M per year goes toward operating and maintaining existing services in school districts. A small percentage has gone toward incremental replacement and emerging technology. In FY06, 99% of the technology funds that OET is responsible for in federal, state and KDE funds will go toward operating/maintenance and incremental upgrades of existing services. A huge portion (approximately $6.5M) of Office of Education Technology (OET) managed funds buys software maintenance (e.g., MUNIS, STI, virus protection, etc.) and data lines for all school districts (i.e., Frankfort to district connections) so our schools get large volume price discounts. Another huge portion (approximately $17.5M in state and federal funds) of OET managed funds are transferred directly to school district bank accounts. Nearly all of the remaining funds go toward keeping the lights on. Virtually no KETS funds are available and used for new emerging technology services. In fact 99% of OET managed funding sources (federal, KETS, and KDE) have gone toward keeping the lights on for basic established services that school districts and KDE staff depend on daily and have been in place for up to a decade (e.g., Internet, Virtual Library, electronic communications, financial management systems, virus protection, electronic security, school student management systems, etc.). Over the past six years, there have been extremely limited discretionary funds in the OET budget and district budgets to create new systems beyond the ones already established. In fact, the only time we are able upgrade one of our existing services is when we start running into extreme end-of-life issues with the vendor (e.g., NT Server 4.0 to Active Directory, Exchange 5.5 to Exchange 2003, KIH1 to KIH2, MUNIS to MUNIS 2004, etc.).

Staff Recommendation and Rationale:

Staff recommends approval of the KETS budget as presented. The plan is consistent with the 2001 - 2006 Master Plan for Education Technology that was approved by the Board. Approval will allow the Department to proceed with FY 2006 KETS funds that have been identified for the new fiscal year.

Impact on Getting to Proficiency:

The annual KETS Shared Services and Offers of Assistance provides supplemental services and funding to each district to implement, maintain, and incrementally replace the technology required to enhance the learning opportunity for all students and provides them the opportunity to obtain required technology skills that will be valuable once they graduate.

Groups Consulted and Brief Summary of Responses:

- District Staff at Regional Meetings

The FY2001-2006 KETS Master Plan discussed the annual KETS Implementation Plan services and estimated costs for school expenditures as well as district shared and state shared services. These services were presented to the above groups in the text, graphics and budget portions of the Master Plan document. The KETS Master Plan was approved by the KBE.

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Deputy Commissioner **Commissioner of Education**

Date:

August 2005